

Office of Internal Audit



**Compliance Audit 2019-05
WEX Fuel Cards**

May 2019

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OUR MISSION

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

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EXECUTIVE SUMMARY

The Office of Internal Audit conducted a compliance audit of the WEX fuel card program managed by the Police and Fire Departments. The audit was approved in the Fiscal Year 2018-2019 Internal Audit Plan. The audit period covered WEX fuel card transactions dated January 1, 2018 through December 31, 2018, and January 1, 2019 through March 12, 2019 were reviewed when deemed necessary. The objectives of the audit were to determine whether:

1. Fuel cards were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures;
2. Fuel cards issued are needed and periodically accounted for;
3. Proper internal controls existed to ensure that only authorized individuals use fuel cards;
4. Fuel cards are used to obtain fuel for City purposes only.

This report addresses a number of control weaknesses within the WEX fuel card program that negatively impacted the control environment. As a result of the audit, nine findings were noted:

1. Federal and State fuel tax exemptions were not obtained.
2. Fraud, waste and abuse potentially existed due to lack of internal controls.
3. City-wide and/or departmental written policies and procedures governing fuel card usage and management were not documented.
4. Departmental management should perform an appropriate level of review.
5. WEX fuel cards were not inventoried and could not be located.
6. Internal controls were lacking in the City's WEX fuel card online program.
7. Segregation of duties over WEX fuel cards administration and system access were lacking.
8. Training and accountability were not required.
9. Fraudulent use of WEX fuel card occurred.

The results of the audit present potential cost saving opportunities and identified areas for management to correct weaknesses and improve its operations. Internal Audit determined internal controls related to the WEX fuel card program needed to be established, and the administrative oversight of the fuel cards needed improvement. Overall, the fuel card program would operate more efficiently and effectively if management implemented the recommendations as presented in the report.

Internal Audit reviewed WEX fuel card transactions to determine if fraud occurred. Based on review of WEX fuel card transactions, the following conditions were noted that might indicate fraud: (1) multiple transactions within an hour, (2) fuel cards used to purchase fuel more than once a day, (3) purchases in excess of the vehicles fuel capacity, (4) use of department personnel's personal identification number (PIN) to purchase fuel not within the work hours reflected on the respective timecards, and (5) fuel purchases outside of Fayetteville and surrounding communities.

Additionally, upon review of WEX fuel card reports provided and interviews of personnel it became apparent that control weaknesses were wide spread and pervasive throughout the WEX fuel card program. Internal Audit concluded there was a high probability that fraud relating to the use of the City's WEX fuel cards for non-City purposes could exist.

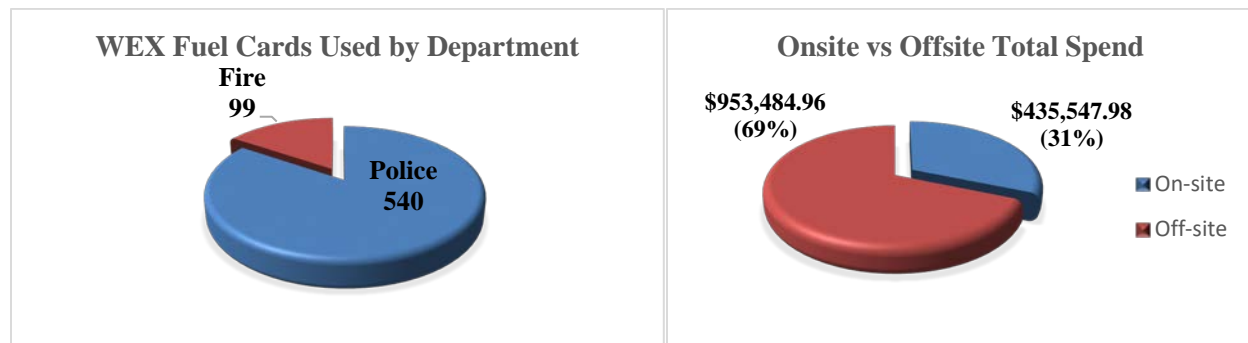
BACKGROUND

The City of Fayetteville expanded its fueling locations by entering into an agreement through the State of North Carolina in April 2014. Under the convenience contract through the State of North Carolina, fuel cards could be used by the Police and Fire Departments to purchase fuel through Wright Express (WEX).

The City’s fuel card program serves as a refueling alternative when personnel driving City-owned vehicles are unable to use the City fuel sites¹. City management also indicated additional benefits of reduced response times, as fire apparatus and police vehicles would be able to refuel in their districts, reducing time away from assigned areas. Under the WEX fuel card program, Police and Fire Department personnel may obtain fuel 24 hours per day, seven days per week at participating retail locations that accept the WEX fuel cards issued by the City of Fayetteville Police and Fire Departments. WEX maintains a website that details and summarizes the City’s WEX fuel card activity.

The City’s WEX fuel card program included 675 vehicles, apparatus and equipment and involved 28,224 transactions, totaling \$953,484.96² in fuel card transactions between January 1, 2018 and December 31, 2018.³ Each operational Police and Fire Department vehicle, with some exceptions, was assigned its own WEX fuel card to purchase fuel. The fuel card was identified by the associated vehicle, apparatus or equipment number. A personal identification number (PIN) was required to be entered by City personnel to obtain fuel.

The WEX fuel card program was a decentralized function, and the Police and Fire Departments were responsible for all aspects of the program within the respective department, to include: (1) initiate and process new cards, (2) initiate and process driver PINs, (3) deactivation of driver PINs, (4) process replacements for lost or stolen cards, (5) process cancellation of cards for disposed vehicles, apparatus and equipment, and (6) oversight of fuel card use. There were 639 WEX fuel cards used from January 1, 2018 to December 31, 2018 by City of Fayetteville public safety personnel.



There were two City fuel sites which allow fuel to be purchased tax-free. While personnel were encouraged to utilize the City’s fuel sites, the WEX fuel cards were accepted at numerous locations, in and outside of the City. However, the tax free rate was only available at the two City fuel sites. Through the WEX fuel card program, the City expended \$200,353.57, 21% of the total WEX fuel card costs, in related fuel taxes.

AUDIT OBJECTIVES

The objectives of this audit were to determine if:

1. Fuel cards were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures;
2. Fuel cards issued are needed and periodically accounted for;
3. Proper internal controls existed to ensure that only authorized individuals use fuel cards; and
4. Fuel cards are used to obtain fuel for City purposes only.

¹ Includes the PWC fueling site.

² Total expenditures for the WEX fuel card program of \$953,484.96 was net of rebates totaling \$15,772.85.

³ The term “vehicles” includes fire engines, fire emergency trucks and motorcycles. The term “equipment” includes generators, all-terrain vehicles and boats.

AUDIT SCOPE

The scope of the audit included WEX fuel card transactions, which occurred January 1, 2018 through December 31, 2018. WEX fuel card transactions for January through March 12, 2019 were reviewed when deemed necessary.

Internal Audit used transactional detail reports from the WEX fuel card system provided by the Police and Fire Departments to select a ten percent sample of WEX fuel card transactions to determine the location, existence, security, and if there were any inappropriate uses of the fuel card. Additionally, a ten percent sample of Police and Fire Department personnel were selected and cross referenced to the transactional detail report and time cards to determine inappropriate use.

This report and its findings are based on information taken from a sample of transactions and personnel and do not intend to represent an examination of all related transactions and activities.

AUDIT METHODOLOGY

In order to accomplish the objectives of the audit, the Office of Internal Audit performed, but was not limited to, the following:

- Interviewed Police and Fire Department personnel in various roles within the respective departments;
- Conducted a review of the sampled transactions to determine the effectiveness of internal controls;
- Reviewed WEX fuel card invoices and City fueling site consumption reports;
- Reviewed JD Edwards vehicle and equipment capital asset records, and personnel records;
- Conducted a walkthrough of the Public Works Commission (PWC) fueling site and a retail location within the City;
- Reviewed fuel card data to identify questionable transactions; and
- Considered risk of fraud, waste and abuse.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

Finding 1

Federal and State fuel tax exemptions were not obtained.

Based on review of WEX fuel card transaction detail reports, there was no indication that the City of Fayetteville received eligible fuel tax exemptions. Internal Audit determined the City paid \$200,353.57 in fuel taxes across 28,037 fuel card transactions during calendar year 2018. However, the City did not pay fuel taxes for fuel purchases at the two City fuel sites.

Department of the Treasury, Internal Revenue Service, Publication 510, *Excise Taxes (Including Fuel Tax Credits and Refunds)* states, a credit or refund may be allowable to an ultimate purchaser when the use is exclusive by a political subdivision of a state, which means fuel purchased by a state or local government. Furthermore, North Carolina General Statutes 105-449-88, *Exemption from the excise tax* states, excise tax on motor fuel does not apply to motor fuel sold to a county or a municipal corporation for its use.

During the implementation of the WEX fuel card program in 2014, the documentation completed by the City of Fayetteville to participate in the convenience contract through the State of North Carolina by purchasing fuel through WEX did not stipulate that the City was exempt from motor fuel tax.

Based on the City's WEX fuel card expenditures for calendar year 2018, totaling \$953,484.96, of which \$200,353.57, 21% was related fuel taxes, the City potentially overpaid fuel taxes in the amount of \$896,819 since the 2014 implementation.

Recommendation

Internal Audit recommends management of the Finance Department to implement the following:

1. File applicable fuel tax exemption documentation and follow-up to ensure the City receives the fuel tax exemption status with WEX.
2. Research to determine if the City is entitled to Federal and State fuel tax refunds paid since 2014 and request refunds, as deemed eligible.
3. Monitor WEX fuel card invoices for merchants not participating in the tax exemption program to ensure fuel tax refunds are requested.

Management's Response:

Finance Department

Management concurs and is in full agreement with the recommendations.

1. Finance management has filed the required fuel tax exemption package with WEX and will follow-up to ensure the City is receiving the tax exemption status as requested. Furthermore, the Finance Department will complete a reconciliation to ensure reimbursements were filed on behalf of the City, both for State and Federal, monthly and annually respectively.
2. Research has been conducted to determine if the City is eligible for refunds, however, as of April 29, 2019 the amount and timeframe are still in the process of being finalized, knowing that time is of the essence. Once the eligibility is finalized the City will work diligently to file the required reports and documentation to maximize the amount of the refund. The City is currently working with WEX, North Carolina Department of Revenue and the Internal Revenue Service.
3. WEX tax enrollment documentation states that merchant participation is optional, therefore, Finance management will receive transactional information reflecting fuel taxes reported for the non-participating merchants for follow-up on refunds based on State and Federal guidelines; whereas, the State is applied for monthly and Federal is applied for annually. Furthermore, Finance staff will periodically record a receivable to reflect and aide in the reconciliation process of reimbursements due to the City.

Responsible Party: Jody Picarella, Accounting Manager

Implementation Date: September 1, 2019

Finding 2

Fraud, waste and abuse potentially existed due to lack of internal controls.

Given the poor internal controls, the high number of users and the poor oversight, there is a high probability fraud has occurred. Additionally, the very lack of controls makes it almost impossible for Internal Audit to determine the extent of any such fraud.

Internal Audit noted breakdowns in all elements of the control system. Examples include: (1) fuel cards not used for assigned vehicle, (2) PINs appeared to not be used solely by personnel it was assigned, (3) odometer readings not consistent, and (4) the Police Department "Special Investigations" fuel cards were not auditable because fuel cards were assigned to an individual and not a vehicle which could lead to multiple transactions within a short period of time. Interviews conducted by Internal Audit revealed Police Department fuel cards were maintained and used to purchase fuel for vehicles other than the assigned vehicle.

Validating fuel card transactions for legitimate City purposes.

Based on review of Police and Fire Department personnel time cards and fuel card transactions reflecting personnel's assigned PIN, fuel card purchases could not be validated to ensure the fuel purchases were for legitimate City purposes.

Controls over establishing unique personal identification number (PIN) to prevent misuse.

A PIN was set up in the WEX online system for Police Department personnel authorized to purchase fuel. The PIN used is not confidential; whereas, personnel use the number on various forms and documents throughout the Police Department.

The Fire Department allowed the WEX online system to automatically generate a unique PIN for Fire Department personnel to use with fuel cards. However, the Fire Department issued the PIN during the Fire Academy, but Fire Department personnel are not authorized to immediately operate engines and apparatus until a certain driving level is reached through continued training.

Security of fuel cards.

Police and Fire Department active fuel cards did not appear to be in secured locations. During the active fuel card inventories, Internal Audit noted fuel cards stored in various locations within the vehicles and apparatus, to include fuel cards not being removed when turning vehicles in for servicing.

Lack of policies, procedures, and training over the WEX fuel card program fostered an environment for fraudulent activity. By not establishing expectations of personnel utilizing fuel cards, interpretation was left to the card user. Minimal oversight of the WEX fuel card system also lead to questionable transactions in which Internal Audit was unable to validate.

There is potential for financial loss to the City of Fayetteville if these observations are not corrected. Review and oversight of transactions within the WEX fuel card program will provide greater assurance that the risk of fraud is minimal. Securing fuel cards and using unique PINs would help to mitigate the risk of additional fraud that could potentially go undetected. Additionally, by not providing a secured location for fuel cards, risk of loss of the card is heightened and could lead to misuse of fuel cards or fraud.

Recommendation

1. Internal Audit recommends management of the Police and Fire Departments implement the recommendations as presented in the audit report to ensure internal controls are established, followed, maintained, and properly documented to include a process to ensure adequate follow-up regarding questionable fueling transactions is conducted.
2. Management within the Police Department should consider changing the currently assigned WEX PINs to a confidential PIN.
3. Management should ensure WEX fuel card PINs are only assigned to personnel with the ability and need to use the fuel cards.
4. Assessment of a secure location in Police and Fire vehicles and equipment should be completed to determine the safest location for fuel cards to be maintained. Policies should note suitable places to store the fuel card in City owned vehicles and equipment.

Management's Response:

Police Department:

Management concurs with reservations. Implementation of a City policy will be established and the overall procedures for the police department are presently being evaluated to ensure best practice and accountability. Verifying if the "Pins" are operationally able to be changed and reassigned will be a part of that evaluation. Determining a "secure" location within the vehicles may be a challenge and will need to be determined. This will be recommended but likely monitored with daily accountability measures. Locations for fueling will also be evaluated by management.

Responsible Party: Assistant Chief Anthony Kelly

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #1 and is in full agreement with the three (3) improvement opportunities (#1, 3 and 4) listed applicable to the Fire Department. The department's current business practices are aligned with the recommended improvement opportunities; however these are not codified in policy or other written guidance documents. The department is of the position that there was no evidence found to indicate any fraud has been committed, nor has suspicion be raised that indicates any fraudulent activity with any of the WEX Fuel Cards assigned to the Fire/Emergency Management Department. The department acknowledges there is a lack of internal control measures that inhibits the detection of potential fraudulent activity. The department will assist with policy development that addresses the concerns raised with the audit findings including, but limited to, responsible and frugal use of the department's fuel budget. It is an operational necessity that all fire department employees be issued a fueling Personal Identification Number (PIN), as all employees are required and subject to drive/operate department owned vehicles. To address fuel card security, the department has placed lock boxes in most of the apparatus and are currently researching options to secure fuel cards in staff vehicles.

Responsible Party: Assistant Fire Chief Kevin Morgan

Implementation Date: September 1, 2019

Finding 3

City-wide and/or departmental written policies and procedures governing fuel card usage and management were not documented.

Policies and procedures are a component of administrative controls and are necessary to ensure sound business practices when managing a city-wide program. Clearly written, readily-available policies and procedures provide accountability for new and experienced personnel. Formal policies can clearly make the connection between procedures and how they support an organization's goals and strategic plan. Written procedures can be an important resource in training new personnel and providing performance expectations.

Establishing policies and procedures to govern the WEX fuel card program.

Based on Internal Audit inquiry, there were no written policies or procedures, either city-wide or departmental, governing the WEX fuel card program.

Use of WEX fuel card PIN after end of employment with City.

Internal Audit compared JD Edwards personnel records against WEX fuel card transactions for calendar year 2018 and noted:

- 60 Police Department personnel ended employment with the City. Internal Audit tested to ensure fuel card purchases were not made using the PIN after the end date of employment. Internal Audit found no instances of purchases; and
- 17 Fire Department personnel ended employment with the City. The PIN assigned to two (12%) of the 17 had been used; whereas, it appeared fuel purchases were made after the end date of employment.

Active drivers (PIN) authorization to use WEX fuel cards after end of employment with City.

The active driver listing from the WEX fueling system was compared against JD Edwards personnel records to determine if personnel that ended employment with the City of Fayetteville were reflected as active drivers and had an active PIN. The following were the observations:

- 24 (5%) of the 511 Police Department active drivers had ended employment with the City; and
- 4 (1%) of the 328 Fire Department active drivers had ended employment with the City.

During the implementation of the WEX fuel card program in 2014, a comprehensive set of policies and procedures were not established to provide guidance that addresses key controls and procedures, to include specifying the authority and conditions for issuance, monitoring and deactivating fuel cards and assigned PINs.

There is an increased risk of intentional misuse, errors, or other irregularities occurring in the City fuel card program given the lack of comprehensive city-wide and/or departmental policies and procedures. The lack of written policies and procedures can create difficulties for an organization's cost effectiveness, service consistency, accountability and decision-making. Additionally, without explicit written policies and procedures, personnel may not clearly understand their responsibilities within the department.

Recommendation

1. Develop written city-wide and departmental policies and procedures for using WEX fuel cards, to include identifying the City administrator of the WEX fuel card program. These policies and procedures should address the City administrator and user department responsibilities, as well as operational guidance.
2. Ensure user departments are provided copies of the city-wide policies and procedures and are requested to comply and develop internal procedures for fuel cards. Training should be given to personnel that use WEX fuel cards to ensure understanding and adherence to the policies and procedures.
3. A process should be developed to ensure when personnel are no longer employed with the City, their WEX fuel card PIN number is deactivated immediately after their last day of employment.
4. Sharing PIN's should be considered a violation of policy.

Management's Response:

Police Department:

Management Concur. Departmental Procedures are being evaluated for best practices and will ensure they are in compliance with City-Wide policy.

Responsible Party: Chief Gina V. Hawkins and Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #2 and is in full agreement with the four (4) improvement opportunities listed. The department's current business practices are aligned with the recommended improvement opportunities; however these are not codified in policy or other written guidance documents. The department management is receptive to oversight by an overarching City of Fayetteville (COF) policy governing the administration of the WEX Fuel Card program. Additionally, the department will develop and implement an internal Standard Operating Guideline that compliments the COF policy and addresses operational procedures needed to ensure business continuity. These documents will clarify responsibilities, stipulate training and define the process of issuing, terminating and ensuring security of Personal Identification Numbers (PIN).

Responsible Party: Assistant Fire Chief Kevin Morgan and Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Finding 4

Departmental management should perform an appropriate level of review.

Police and Fire Department management are responsible for reviewing fuel transactions on the monthly Wright Express (WEX) fuel credit card statements for reasonableness. Additionally, management should simultaneously review the fuel card transactions at the City's fuel sites to determine if personnel obtain fuel using a WEX fuel card and a City fuel pump within a short period of time. Fuel card users were not required to maintain or submit receipts of fuel card transactions to departmental management.

Multiple transactions noted.

While there may have been legitimate reasons in some cases to have multiple transactions as identified, the large number of multiple transactions would indicate an issue that should have been investigated by those responsible to oversee the transactions.

1. The Police Department reflected 2,168 (9.5%) multiple transactions of the 22,896 total transactions. The breakdown for fuel purchased twice or more within an hour is as follows:
 - a. Multiple transactions with same PIN, on same day using the same fuel card. (1,675 in total)
 - i. 353 (21%) of the 1,675 transactions were noted where personnel (based on PIN - does not take into account sharing PINs) purchased fuel twice or more within an hour using the same fuel card.
 - b. Multiple transactions with a different PIN, on the same day with same fuel card. (493 in total)
 - i. 243 (49%) of the 493 transactions were noted where the same fuel card was used two or more times during the same day within an hour by different personnel (based on PIN - does not take into account sharing PINs).
2. The Fire Department reflected 242 (5%) multiple transaction of the 5,328 total transactions. The breakdown for fuel purchased twice or more within an hour is as follows:
 - a. Multiple transactions with same PIN, on same day with same fuel card. (180 in total)
 - i. 126 (70%) of the 180 transactions were noted where personnel (based on PIN - does not take into account sharing of PINs) purchased fuel twice or more within an hour using the same fuel card.
 - b. Multiple transaction with a different PIN, on the same day with same fuel card. (62 in total)
 - i. 4 (6%) of the 62 transactions were noted where the same fuel card was used two or more times during the same day within an hour by different personnel (based on PIN - does not take into account sharing of PINs).

Inappropriate use of fuel cards (sharing fuel cards).

Currently there are no documented operating procedures for monitoring unusual transactions and reviewing reports for errors. Without an appropriate level of management review, unusual fueling transactions and errors may go unnoticed.

Every Police and Fire Department vehicle and apparatus was issued a fuel card. In addition, fuel cards were issued to some equipment (ATV and boats) and spare cards, to include miscellaneous fuel cards issued to each Fire Station. Based on Internal Audit's analysis, it appeared fuel purchases were not monitored by the Police or Fire Departments. Although evidence could not be provided, Internal Audit was advised by Police and Fire Department personnel of instances where a fuel card was used to fuel several vehicles, and where fuel was pumped into the vehicle's tank as well as into a separate fuel container.

Additionally, Internal Audit reviewed the WEX, City and PWC fuel transactions for the vehicles associated with the selected fuel cards and noted instances in which the fuel card and PWC and/or City sites were used on the same day. In most instances the personnel, who appeared to have used the vehicle at the time the

transactions was made, were questioned to determine why there were two transactions on that day. However, Internal Audit could not validate all the reasons personnel provided as to why the fuel card and PWC and/or City pump were used on the same day.

Odometer variances.

The WEX fueling system requires users to enter an odometer reading for each fueling transaction. The odometer reading is used to track miles-per-gallon, assess vehicle utilization and monitor abuse. Odometer entries made at the point of purchase provide a significant source of information that can be analyzed to determine if the City's fuel purchase activity is appropriate and fuel consumption is reasonable.

There was no monitoring of the odometer readings within the WEX fuel card program by Police or Fire Department management. Internal Audit noted on some fuel card purchases an incorrect odometer reading was entered; as evidenced by a decrease in odometer reading from one fuel purchase to the next. In other instances, a fictitious number was entered.

Internal Audit did not include an examination of the odometer readings.

Review and approvals of fuel card transactions.

Documentation to support fuel card purchases was not available for the Police or Fire Departments. Currently, receipts are not required to be retained and fuel card purchases are not reviewed or approved by either the fuel card user or the supervisor.

Fuel type discrepancies.

There were 1,611 Police Department transactions where higher grade fuel was purchased with transaction dates between January 1, 2018 and December 31, 2018, totaling \$54,281.78 for 18,628.21 gallons with an average per gallon rate of \$3.1717 including taxes and \$2.5953 excluding taxes and reflecting a rebate deduction of \$778.38. Based on the average per gallon rate for regular unleaded of \$1.9353, which is \$.66 a gallon less than the average cost of the several types of premium fuel purchased, the additional costs for the higher grade of fuel for the City was \$12,294.66.

There were 54 Fire Department transactions where higher grade fuel was purchased with transaction dates between January 26, 2018 and December 27, 2018, totaling \$1,890.92 for 626.25 gallons with an average per gallon rate of \$3.10 including taxes and \$2.489 excluding taxes and reflecting a rebate deduction of \$28.599. Based on the average per gallon rate for regular unleaded of \$2.0675, which is \$.4219 a gallon less than the average cost of the premium fuel purchased, the additional costs for the higher grade of fuel the City was \$264.21.

During the implementation of the WEX fuel card program in 2014 a comprehensive set of policies and procedures were not established to provide guidance addressing key controls and procedures, to include specifying management oversight of fuel consumption of vehicles and equipment and monitoring use of fuel cards.

Without proper monitoring and internal controls in place, it is difficult to determine whether fuel is being used for legitimate business purposes. In addition, the absence of odometer reading entries on the fuel purchases prevented Internal Audit from fully evaluating the legitimacy of the transactions. Internal Audit's review identified a significant number of transactions that should have been questioned by management. Due to the volume of questionable transactions, Internal Audit did not have the resources to review each instance. However, Internal Audit provided additional information regarding questionable observations to the Police Department for review and follow-up with Internal Audit. Allowing personnel to use fuel cards to fuel other vehicles and containers defeated the purpose of maintaining one fuel card for each vehicle.

Recommendation

1. Management should ensure fuel consumption of each vehicle and personnel are monitored and reviewed and any abnormalities in fuel consumption, to include purchases of higher grade fuel, is investigated. Additionally, trend analysis should be performed to identify and justify increases/decreases in monthly fuel consumption.
2. Based on the type of apparatus/vehicle, management should establish a mechanism to track miles per gallon, assess vehicle utilization and monitor potential abuse.
3. Although the WEX system allows fuel card controls, establishment of a process to review for exceptions is recommended.

Management's Response:

Police Department:

Management concurs. This will be included with the City-wide policy and departmental procedure.

Responsible Party: Chief Gina V. Hawkins and Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #3 and is in full agreement with the three (3) improvement opportunities listed. The department's current business practices are aligned with the recommended improvement opportunities; however these are not codified in policy or other written guidance documents. Improvement Opportunity #2 references using odometer readings to track miles per gallon, which may prove to be problematic with fire apparatus. A considerable amount of engine run time of fire apparatus occurs when the vehicle is stationary on emergency incident scenes. The department will explore feasibility of monitoring engine operating hours for pumping apparatus. The department is also exploring the feasibility of tracking fueling activities within its current Records Management System (RMS). It is theorized that refueling can be entered as an activity, including pertinent details such as gallons purchased, amount charged, the employee completing transaction, etc. A reconciliation report from the department's RMS may be available for comparison to the monthly WEX report. This will also afford drivers the opportunity to document and memorialize customary discrepancies that inaccurately appear malicious such as multiple transactions in close proximity due to fueling being interrupted by emergency calls, malfunctions of the fuel pumps, purchasing multiple fuel types simultaneously for the varied power equipment carried of fire apparatus, etc. This process will be defined in the department's Standard Operating Guideline if implemented.

Responsible Party: Assistant Fire Chief Kevin Morgan

Implementation Date: July 1, 2019

Finding 5

WEX fuel cards were not inventoried and could not be located.

Adequate oversight and appropriate controls are critical in safeguarding the completeness of the WEX fuel card population. Established inventories on a scheduled basis would assist in accounting for all fuel cards. These established inventories would also assist in correcting any duplicate fuel cards or fuel cards assigned to vehicles no longer in service with the City.

Frequent or random inventories were not conducted.

There were no inventories conducted on the Police Department WEX fuel cards.

Fire Department apparatus (fire engines, trucks, emergency vehicles, ATV's and boats) were required to be inventoried daily, and an inventory sheet was completed and maintained. However, no fuel card inventory was conducted on Fire Department administrative vehicles. Internal Audit selected a 10% sample of Fire Department apparatus for existence testing to ensure an inventory was conducted. Internal Audit concluded only one vehicle had a WEX card inventory for all days tested.

Active fuel cards reflecting transactions were unaccounted for during existence testing.

Internal Audit selected a 10% sample of Police Department vehicles for existence testing to ensure the fuel card existed and was maintained in the assigned vehicle. Internal Audit concluded:

- Active fuel cards were missing from vehicles when vehicles were assigned to personnel;
- Personnel used fuel cards assigned to different vehicles, and the assigned active fuel card was not available;
- Active fuel cards assigned to vehicles located at PWC for maintenance or surplus reasons could not be inventoried; and
- An active fuel card could not be located during Internal Audit testing, but the terminated fuel card for the vehicle was being maintained and inventoried by Internal Audit.

Internal Audit selected a 10% sample of Fire Department vehicles and apparatus for existence testing to ensure the fuel card existed and was maintained in the assigned vehicle or apparatus. Internal Audit concluded all sampled active fuel cards were maintained with the identified vehicle or apparatus.

Active fuels card reflecting NO transactions were unaccounted for during existence testing.

Internal Audit determined the Police Department had 75 active fuel cards that did not reflect charges for the calendar year 2018. Existence testing was performed, and Internal Audit concluded 21 (68%) of the 31 sampled active fuel cards could not be located.

Internal Audit determined the Fire Department had six active fuel cards that did not reflect charges for the calendar year 2018. Existence testing was performed, and Internal Audit concluded one (17%) of the six sampled active fuel cards could not be located.

Fuel cards remained active for disposed/surplus vehicles and equipment.

Internal Audit determined the Police Department had three active fuel cards assigned to surplus/disposed vehicles being used to obtain fuel.

Internal Audit determined the Fire Department did not have any active fuel cards assigned to surplus/disposed vehicles being used to obtain fuel.

Vehicles were assigned multiple active fuel cards.

Internal Audit was advised during the Police Department entrance meeting, when fuel cards are issued in the WEX online system, the system automatically terminates the lost card. However, based on Internal Audit review of the active fuel card listing, Internal Audit noted five vehicles with two active fuel cards issued for each vehicle.

The Fire Department did not have multiple fuel cards assigned to apparatus and vehicles.

During the implementation of the WEX fuel card program in 2014 a comprehensive set of policies and procedures were not established to provide guidance addressing key controls and procedures, to include requiring an annual inventory of fuel cards, and monitoring and deactivating fuel cards. Without a master inventory listing of fuel cards, there is an increased risk that City assets may be misused.

Recommendation

Internal Audit recommends the Police and Fire Departments implement a fuel card inventory process. At a minimum, the following should be performed:

1. Require an annual physical verification of all fuel cards, as evidenced by signature and date of the personnel conducting the inventory and the cardholder assigned to the vehicle;
2. Unaccounted for fuel cards should be deactivated immediately;
3. Management should develop and maintain a listing of vehicles and the fuel cards assigned, to include spare and miscellaneous fuel cards;
4. Management should ensure cancellation of fuel cards due to disposal/surplus is completed on a timely basis and are followed-up to ensure they are deactivated;
5. Establish a process in which fuel cards without activity for a given period of time are deactivated; and
6. The Police Department should immediately complete a physical inventory of all WEX fuel cards to ensure existence and immediately deactivate all fuel cards not located.

Management's Response:

Police Department:

Management concurs. This will occur with the development of the departmental procedure as well as evaluating the best practice for the future.

Responsible Party: Assistant Chief Anthony Kelly

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #4 and is in full agreement with the five (5) improvement opportunities (#1 through 5) listed applicable to the Fire Department. The department's current business practices are aligned with the recommended improvement opportunities; however these are not codified in policy or other written guidance documents. These suggestions will be incorporated into the recommended COF policy and/or FFD Standard Operating Guideline as applicable.

Responsible Party: Assistant Fire Chief Kevin Morgan

Implementation Date: September 1, 2019

Finding 6

Internal controls were lacking in the City's WEX fuel card online program.

Effective internal controls require assets are periodically reconciled with authorizations and issuances; resources received are recorded and periodically inventoried to ensure they are used as intended by management; and assets are safeguarded and restricted access is in accordance with management policy.

Fuel card controls within the WEX online system needed to be improved to prevent misuse.

Internal Audit could not determine if WEX fuel card control profiles were complete for the combined 615 Police and Fire Department active WEX fuel cards used during the calendar year 2018.

Based on Internal Audit walkthrough of the WEX fuel card online system and the review of the convenience contract with the State of North Carolina, fuel card profiles can be set up within the WEX system to limit: dollar limit per transaction (by vehicle), dollar limit per billing period (by agency, subdivision), number of transactions per day, gallons limit per day, fuel capacity, purchases restricted to fuel only and gallons limit per transaction.

The WEX fuel card program was established out of necessity based on the distance to the City and PWC fuel sites. However, policies, procedures and internal controls were not established to provide guidance on the use of the WEX fuel cards and to detect and prevent fraud, waste and abuse.

Without proper monitoring and internal controls in place, it is difficult to determine whether fuel is being used for legitimate business purposes. Fraud, waste and abuse could exist and without proper controls in place could remain undetected.

Recommendation

Management should utilize the controls within the WEX fuel card online system when possible, and when not possible, alternative controls should be put in place to detect exceptions.

Management's Response:

Police Department:

Management concurs. The existing controls will be evaluated to determine which thresholds need to be increased.

Responsible Party: Assistant Chief Anthony Kelly

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #5 and is in full agreement with the recommendation. The department will restrict the ability to purchase only the fuel type used by the vehicle where possible. The department currently allows the purchase of non-fuel items (i.e. motor oil, DEF fluid, transmission fluid, etc.) with the WEX program, however data shows this has only been employed twice since implementation. Due to the limited need demonstrated, the department will restrict fuel cards to fuel purchases only.

Responsible Party: Office Manager Bobbie Bethea

Implementation Date: July 1, 2019

Finding 7

Segregation of duties over WEX fuel cards administration and system access were lacking.

Proper segregation of duties at the most basic level means no single individual should have control over two or more phases of a transaction or operation.

Principle 10 of the United States Government Accountability Office *Standards for Internal control in the Federal Government* lists segregation of duties as a control activity in which: "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets so that no one individual controls all key aspects of a transaction or event."

Based on Internal Audit inquiry, one Fire Department personnel and two Police Department personnel were assigned the duties and responsibilities related to fuel card set-up, account changes and cancellation. These departmental personnel could request new fuel cards, submit requests to WEX for any account changes, and request cancellations for lost cards or when personnel terminate from City employment. All three personnel also had a WEX PIN and access to WEX fuel cards.

Lack of understanding around best practices contributed to there being a single owner for all processes in the respective departments. When the system was implemented in 2014, the respective departments were given responsibility of all aspects of the WEX fuel card program without an independent city-wide administrator to provide oversight to ensure segregation of duties.

A lack of segregation of duties compromises the integrity of information, permits errors and omissions to go uncorrected, and opens the opportunity for possible fraudulent activity. This lack of segregation also fosters an environment in which manipulation of the data could lead to instances in which fraud, waste, and abuse go undetected.

Recommendation

Internal Audit recommends WEX fuel card administration responsibilities be reassigned in order to achieve an effective separation.

Management's Response:

Police Department:

Management Concurs

Responsible Party: Chief Gina V. Hawkins and Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #6 and is in full agreement with the recommendation. The department management suggest the WEX program be administered by the City of Fayetteville (COF) Finance Office, utilizing similar internal controls that are applied to the COF Procurement Card Program. The department will develop and implement a standard operating guideline that compliments the COF WEX policy and delineates responsibility of operational functions to a department level as appropriate. The department will further separate operational and reconciliatory responsibilities respectively between the logistics division supervisor and the Office Manager as a measure of segregation of duties.

Responsible Party: Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Finding 8

Training and accountability were not required.

When personnel begin employment with the City of Fayetteville Police or Fire Department, initial training should be completed for personnel to have an accurate understanding of the expectations for use of the WEX fuel card. Information such as appropriate use and applicable policies should be presented to new personnel prior to receiving their PINs as well as acknowledgement of receipt of that information.

Documented training was not provided. The guidance provided to Police and Fire Department personnel was verbal, and fuel card users were not required to sign a fuel card usage agreement or acknowledgement of the authorized uses as it related to the WEX fuel card program.

Due to the lack of policies and procedures for this process in the City, there have been no established guidelines in order to determine the expectations for the WEX fuel card program.

By not having an appropriate understanding of what is expected when using the WEX fuel card, personnel use the fuel card rather than using City fuel sites, share fuel cards, and do not properly secure fuel cards when left in the vehicle or equipment.

Recommendation

Management should ensure personnel sign a fuel usage agreement that details the terms and conditions on the proper use of the fuel card prior to issuing fuel cards.

Management's Response:

Police Department:

Management concurs. This will be a part of the overall departmental training of the City-wide policy.

Responsible Party: Assistant Chief Anthony Kelly

Implementation Date: September 1, 2019

Fire Department:

The department management concurs with recommendation #7 and is in full agreement with the recommendation. This process should be described in the City of Fayetteville WEX Policy and enforced by the department. This recommendation will be facilitated through use of Power DMS.

Responsible Party: Chief Financial Officer Jay Toland

Implementation Date: September 1, 2019

Finding 9

Fraudulent use of WEX fuel card occurred.

During the period December 28, 2017 through February 4, 2018, a personal identification number (PIN) assigned to Police Department personnel was used 74 times throughout the continental United States using a Police Department WEX fuel card number with total costs of \$5,658.26. These questionable purchases totaled 1,949.528 gallons of fuel, of which 187.382 gallons of unleaded and 1,762.146 gallons of diesel totaling \$5,548.34. Additionally, \$109.92 for diesel exhaust fluid was noted.

Police Department management did not file a report with WEX disputing the transactions nor was a Police report filed or an investigation conducted. This instance of fraud did not appear to be the first occurrence; whereas, in July 2017 a similar instance of fraud totaling \$10,285.19 was investigated by the Police Department and reported to WEX. Based on Internal Audit inquiry, the City of Fayetteville did not recover the loss from the two instances of fraud totaling \$15,943.45.

Management is responsible for ensuring that established internal controls are followed, maintained, and properly documented. An effective internal control system provides reasonable assurance for the safeguarding of assets, for compliance with established policies and procedures, and that business objectives are met.

The lack of effective controls and the ineffectiveness of management review caused an environment conducive for fraudulent activities that could ultimately cause an increase fuel expenditures.

Recommendation

Internal Audit recommends the Police Department implement the recommendations as previously presented in the above findings to ensure internal controls are established, followed, maintained, and properly documented to include a process to ensure adequate follow-up regarding questionable fueling transactions.

Management's Response:

Police Department:

Management concurs. The evaluation of the entire process will include clear internal controls and documented accountability of the process.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2019

CONCLUSION

Internal Audit has concluded work on the audit of the WEX fuel card program for the Police and Fire Departments. Based on Internal Audit's review, the internal controls surrounding the fuel usage and management processes require significant improvements in order to provide reasonable assurance that the respective departments are adequately managing the consumption of fuel and to satisfy the audit objectives. In particular, written policies and procedures should be established, followed and provide for monitoring of fuel card consumptions by the Police and Fire Departments to ensure City funds are safeguarded. The implementation of the audit recommendations should improve the control environment of the WEX fuel card program.

Although the management responses are included in the audit report, Internal Audit does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective actions.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

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